

Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20

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SUMMARY

The Annual Treasury Management Strategy is agreed by Full Council as part of the budget setting process each February. A draft of the strategy is brought before Audit Committee prior to Council to allow greater scrutiny. Whilst responsibility for daily decisions is delegated to the Corporate Director of Finance, any changes to the strategy during the year are reported to Cabinet with an explanation of the need for those changes. Cabinet are fully involved in Treasury Management activity and discuss the current position on a monthly basis at Cabinet meetings, as part of the budget monitoring report.

RECOMMENDATIONS

The contents of the report are reviewed.

INFORMATION

Treasury Management Strategy

- 1 The investment strategy has been developed with the intention to maintain a broadly risk averse approach, whilst being able to seek an optimum yield within the security and liquidity restrictions. The Council has had to take into account new banking reform legislation which removes government support to failing banks when compiling the strategy in 2015/16 as there is a heightened risk to the Council's unsecured investments due to bail-in.
- 2 To help mitigate the bail-in risk it was agreed at Cabinet in November 2014 to make two new changes to the current Treasury Management Strategy - a) to add the use of Reverse Repurchase Agreements (Repo) and b) to add one overseas bank to the counterparty list (Svenska Handelsbanken) providing greater capacity to place short term deposits.
- 3 The report now proposes some further changes to the strategy for 2015/16 to further mitigate risk by expanding the number available counterparties to further diversify the Council's instant access and fixed term portfolio and to extend the available investment vehicles for depositing funds.
- 4 The main proposed changes to the strategy for 2015/16 are the inclusion of one new UK counterparty, namely Goldman Sachs International; the addition of four new overseas banks namely Chinese Banking Corp, DBS Bank Ltd, National Australia Bank and Nordea; the introduction of use of Covered bonds as a method of secured deposit within existing counterparties; and finally the addition of pooled funds as an investment vehicle.

- 5 At this stage, the draft borrowing strategy for 2015/16 will maintain the approach of utilising internal resources to fund a large proportion of capital expenditure. The current interest rate environment of low investment returns compared with borrowing costs, means the current strategy is more cost effective, and risk is reduced from holding additional cash in advance of capital programme spend. Where internal resources are unable to meet the capital expenditure requirement a variety of options will be appraised, however the Public Works Loan Board will remain the primary and most likely source of borrowing. The Council does not expect to require new borrowing until 2016/17.
- 6 Throughout the year the specific investment guidelines in relation to additions and removals to the counterparty list and duration and value limits of investments are kept under continual review and changes are agreed by the Corporate Director of Finance under his delegated authority. Amendments to the strategy are submitted to Cabinet for approval.
- 7 It should be noted that at this stage although a draft strategy for next year has been developed, the figures contained within it are not finalised as work will continue on refining the estimates of the balances and reserves position until the budget is completed in February. As a result many of the figures within the report are subject to change such as the CFR, prudential indicators and projected borrowing. This will be fully reviewed by Cabinet on 12 February 2015, prior to the Strategy being presented to Council for approval on 26 February 2015.

BACKGROUND DOCUMENTS

None